

PaineWebber

Strategy Fund

The Fund seeks
long-term
appreciation
investing
the PaineWebber
Highlight

This brochure contains a prospectus, which describes in detail the Fund's investment objective, investment policies, risks, sales charges, fees and other matters of interest. Please read the prospectus carefully before you invest.

**GOVERNMENT
EXHIBIT
267**

Crim. No. H-04-25 (S-2)

*'By spotting major trends before they become
well-recognized, we aim to provide clients with specific
investment opportunities that offer superior performance.'*

Edward M. Iversen,

Chief Investment Strategist, PaineWebber

**For more than a decade, PaineWebber's
Investment Strategy Group has analyzed
emerging social, economic and political
trends in order to develop broad investment
themes. Identifying such themes before
they become widely recognized has provided
investors with insight into emerging trends
and their impact on the financial markets.**

**The Fund seeks
long-term capital
appreciation by
investing in stocks on
the PaineWebber
Highlighted Stocks list.**

Thematic investing is a hallmark of PaineWebber's Investment Strategy Group as well as the *strategy* behind PaineWebber Strategy Fund.

A Thematic Approach to Investing

September 1999

Thematic Investing Timeline 1988 to 1999

The Beauty of Bonds When the 30-year Treasury bond yielded 9.3% in the fall of 1988, PaineWebber gauged that bonds offered compelling value. As it turned out, that call was made at a time when bond yields had reached their highest levels in recent years, with interest rates declining steadily from that peak.

Led by Edward M. Kerschner, PaineWebber's Chief Investment Strategist, the Investment Strategy Group analyzes economic, social and political data to spot emerging trends and identify investment themes based on those trends. PaineWebber's Investment Strategy Group maintains a *Highlighted Stocks* list of companies believed most likely to benefit from the identified investment themes. Individual investors can participate in the potential of this thematic approach by investing in PaineWebber Strategy Fund.

PaineWebber Strategy Fund offers investors the only way to purchase, in one mutual fund, all the securities on the PaineWebber *Highlighted Stocks* list.

PaineWebber Equity Research

• The PaineWebber Equity Research Department is among the most well-respected research organizations on Wall Street. The Department as a whole and numerous individual equity research analysts have consistently been cited in *Institutional Investor's* annual All-America Research Team surveys.

• *The Wall Street Journal* named 15 PaineWebber analysts in its most recent All-Star Analysts Survey (June 1999).

PaineWebber Equity Research includes more than 50 analysts covering more than 800 stocks in more than 50 industries.

Institutional Investor bases its ranking on the opinions of directors of research, chief investment officers, portfolio managers and analysts of major money management institutions.

April 1989

Ruler Stocks

...consecutive quarters of double-digit S&P earnings gains, cyclical stocks had delivered strong market performance. But with expectations that earnings growth would slow, PaineWebber forecast that "...investors will increasingly look to stocks whose earnings growth is as straight as a ruler, i.e., stable growth stocks." The call was a few months early, but relative to the S&P, growth stocks (as measured by our "high growth" index of companies with expected secular earnings growth rates greater than the S&P 500) began a period of meaningful outperformance in the fall of 1989 that continued for two more years.

October 1989: DJIA at 2,365

November 1989: Berlin Wall falls

Edward M. Kerschner

- Chief Investment Strategist of PaineWebber Incorporated and Chairman of the Investment Policy Committee, providing investment strategy advice to PaineWebber clients.
- More than 20 years' experience in the securities industry; Mr. Kerschner joined PaineWebber in 1982.
- Among the most well-respected investment strategists on Wall Street:
 - Consistently recognized by *Institutional Investor* magazine with positions on its All-America Research Team for both portfolio strategy and quantitative analysis.
 - Frequently featured as a capital markets expert in the *The Wall Street Journal*, *The New York Times*, *Barron's*, *Money*, *Smart Money* and other publications.
 - Developed PaineWebber's *Highlighted Stocks* list in the mid-1980s and has maintained it since then.

Edward M. Kerschner

Chief Investment Strategist, PaineWebber

PaineWebber's Chief Investment Strategist and the Investment Strategy Group analyze economic, social and political data. After discussion and debate, trends are identified and translated into specific investment themes.

Identifying Themes And Selecting Stocks

January 1991: Persian Gulf War

April 1991

In 1990, with the 30-year bond yielding 8.25%, PaineWebber forecast that the long bond yield would fall to 6% by 1996. Though that forecast was three months early (in the months subsequent to the call, interest rates rose, touching 8.5% by July), interest rates then began a steady decline, reaching 6% in September 1993.

The PaineWebber *Highlighted Stocks List*

- Combines expertise of Edward Kerschner and PaineWebber's Equity Research Department.
- Drawn from a group of stocks rated "Buy" or "Attractive" by PaineWebber's Equity Research analysts.
- Mr. Kerschner composes the *Highlighted Stocks list* by selecting companies believed most likely to benefit from identified investment themes.²
- Stocks are usually added to or deleted from the *Highlighted Stocks list* at the beginning of a month, though revisions can be made at any time. The list has historically included approximately 25 names.
- The Fund's performance, however, will not be the same as the price returns of the *Highlighted Stocks list*.³

² The *Highlighted Stocks list* is not compiled with any client or product in mind, including PaineWebber Strategy Fund.

The *Big Shift* of the 1990s would bring about a shift in the capital markets, which would be no less powerful than the institutionalization of the markets in the 1960s or the acceleration of inflation in the 1970s or the takeover mania of the 1980s. The individual consumer was to become the individual investor.

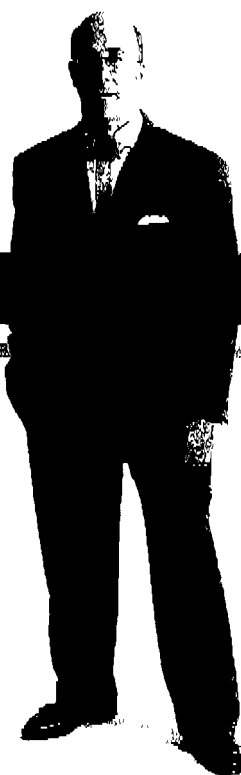
November 1991

New Frontiers PaineWebber forecast that one key trend of the decade would be microprocessor proliferation, and that one of the best ways for investors to exploit this trend was to buy stocks benefiting from explosive growth in the production and distribution of digital information.

November 1992: Democrats retake White House

³ Price returns of the *Highlighted Stocks list* do not predict the future returns of the *Highlighted Stocks list* or the Fund. Deviations from the *Highlighted Stocks list's* price returns will result because those returns are calculated using the prices of the stocks at the close of the stock market before changes to the *Highlighted Stocks list* are announced, and they do not reflect the execution of actual purchases or sales.

Because the *Highlighted Stocks list* is a paper portfolio that is not managed to target a number of stocks, no re-balancing of actual investments is done when stocks are added to or deleted from the list. The Fund will also be subject to daily cash flow, which will result in ongoing purchases and sales of stocks and transactional expenses, including brokerage commissions, as well as the advisory fees and other expenses that the Fund bears.



T. Kirkham Bernerby
Chief Investment Officer of Quantitative Investments and Portfolio Manager, Mitchell Hutchins Asset Management

Professional Asset Management

February 1993: World Trade Center bombing

January 1993

Destructuring The prevailing wisdom was that American industry was fat and bloated, unable—and probably never again able—to compete in world markets. PaineWebber argued that, in this time of weak corporate profitability, companies would be "...viewed as portfolios of businesses that should be actively disassembled and restructured in order to maximize shareholder values." By year's end, the leadership of the DJIA had been delineated not by classic market segments such as "growth" or "cyclical," but by destructuring stories such as General Motors, Eastman Kodak, Goodyear Tire and Sears.

Edward Kerschner and PaineWebber's Investment Strategy Group

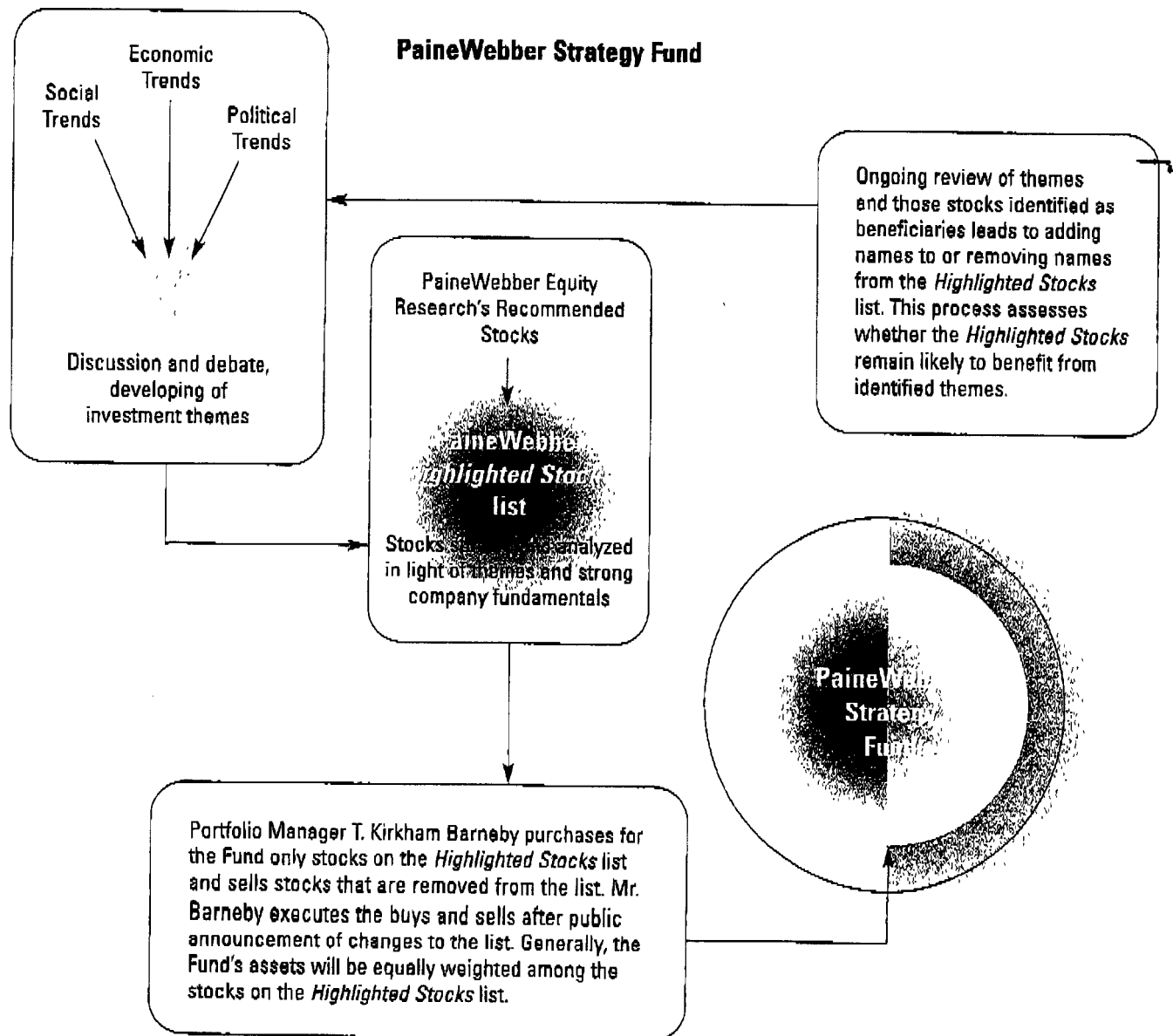
review social, economic and political trends, gather insights from colleagues and add their own analysis to identify emerging investment themes.

This process is ongoing. The Investment Strategy Group continually reviews existing themes, conducts research and evaluates individual securities to assess whether the companies on the *Highlighted Stocks* list remain appropriate in light of current themes and market conditions. Stocks are removed from the list if a company's fundamentals change so that it appears less able to capitalize on the identified themes or if the theme's potential appears to have been fully recognized.

T. Kirkham Barneby is the Portfolio Manager of the Fund. As Mitchell Hutchins' Chief Investment Officer of Quantitative Investments, Mr. Barneby is responsible for asset allocation decisions on a number of PaineWebber mutual funds and Mitchell Hutchins' managed portfolios totaling more than \$3.7 billion in assets. Mr. Barneby, supported by the Quantitative Investments Team, performs the day-to-day management of the Fund, carrying out the trading, cash flow and rebalancing activities necessary to keep the Fund's portfolio in line with the composition of the PaineWebber *Highlighted Stocks* list.

December 1994: Mexican peso crisis

Mitchell Hutchins Asset Management Inc. is a subsidiary of PaineWebber Incorporated that manages more than \$58 billion in mutual fund, institutional and pension plan assets.



Not part of the prospectus

This theme focuses on the consumer, taking an approach more typical of Madison Avenue than of Wall Street. This investment theme attempts to understand consumer behavior and, in particular, the behavior of baby boomers—the largest, fastest-growing and wealthiest segment of the population. Driven by “shared life experiences,” the attitudes of baby boomers about everything from consumption to leisure to health care have changed dramatically as this generation has aged. With most of their material needs satisfied, boomers today place more value on experiences than on tangibles.

Key Trends & Investment Implications

- **Cradle-to-grave entrepreneurialism:** Beneficiaries include firms catering to small businesses, home offices and investors seeking asset management.

Current

Investment Themes

September 1995

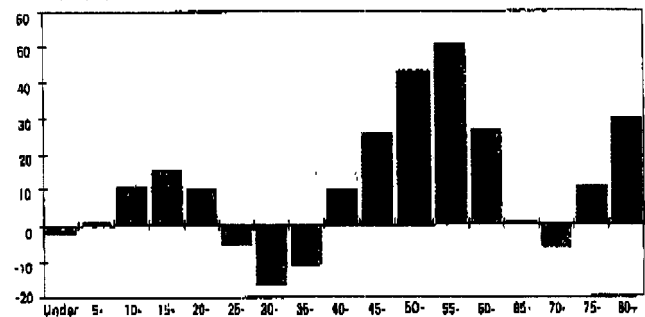
November 1995: DJIA tops 5,000

Consumer Comeback

In the fall of 1995, this investment theme predicted that the consumer sector would drive the U.S. economy in the coming decade. At the time, a consumer comeback seemed unlikely to many experts, given extreme pessimism on the state of the consumer. Today, the U.S. economy is performing remarkably well, real wages have been rising and consumer spending is strong. *The Consumer Comeback's* continuing relevance to investors can be seen in how it has evolved into “The New Millennium American,” a theme identified by the Investment Strategy Group in September 1998.

- **Time drought:** Americans feel short of time and find themselves doing several things at once. Trusted brands and time-savers could flourish.
- **Stressless leisure:** As baby boomers age, they seek leisure activities with less effort, less physical exertion and less risk. Cruise lines, airlines, casinos and hotels could benefit.

Baby Boomers are the fastest-growing segment of the U.S. population
% change by age group, 1993-2005



Source: Census Bureau.

"Benign deflation" and the muting of the business cycle—infrequent and less severe recessions—have altered the old sector rotation, which typically followed this pattern: first, defensive stocks; second, interest-rate sensitive cyclicals; third, commodity cyclicals; and lastly, capital goods makers.

Although the domestic economy has become less volatile, in addition to the muted business cycle, the "new profit pattern" has two other elements: industry mini-recessions and global recession rotation.

In this "new profit pattern," there are four types of cyclical companies whose earnings are affected by different variables: Capacity cyclicals, Demand cyclicals, Growth cyclicals and Credit cycle cyclicals.

The quantity of global GDP (gross domestic product) that ultimately will be "digitizable" will likely surpass today's wildest speculation. Major technological revolutions are always bigger than anyone ever thinks. The First and Second Industrial Revolutions were violent upheavals marked by many simultaneous "wars" between competing interests, technologies and business models; so, too, will the Information Revolution witness many wars in which some firms perish while others flourish.

Key Trends & Investment Implications

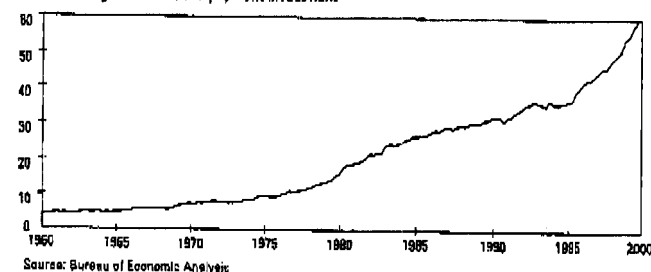
- *Information Age vs. Industrial Age:* The distribution and manipulation of information is now the central wealth-creating activity.
- *Producer vs. distributor:* The Internet increases the power of producers and threatens distributors and middlemen that don't add value.

Key Trends & Investment Implications

- *Capacity Cyclicals:* Companies that could benefit from swings in industry capacity. Supply and demand situation appears favorable for airlines, papers and semiconductors.
- *Demand Cyclicals:* Solid economic growth could prove favorable for autos, diversified industrials, railroads and retailers.
- *Growth Cyclicals:* Global rebound and global growth could be favorable for computer, household products, specialty chemicals and telecom equipment firms.
- *Credit Cycle Cyclicals:* Rebounds in Japanese and Asian markets could benefit select U.S. financial services firms.

- *E-tailing vs. brick-and-mortar retailing:* Companies with strong brands and sophisticated distribution could benefit more than retailers with weak brands.
- *Commoditized information vs. proprietary content / specialized insight:* Commoditization of information could hurt traditional information providers, such as newspapers. Proprietary content is valuable if consumers prove willing to pay for it. Consumers will pay for specialized insight tailored to their specific needs.

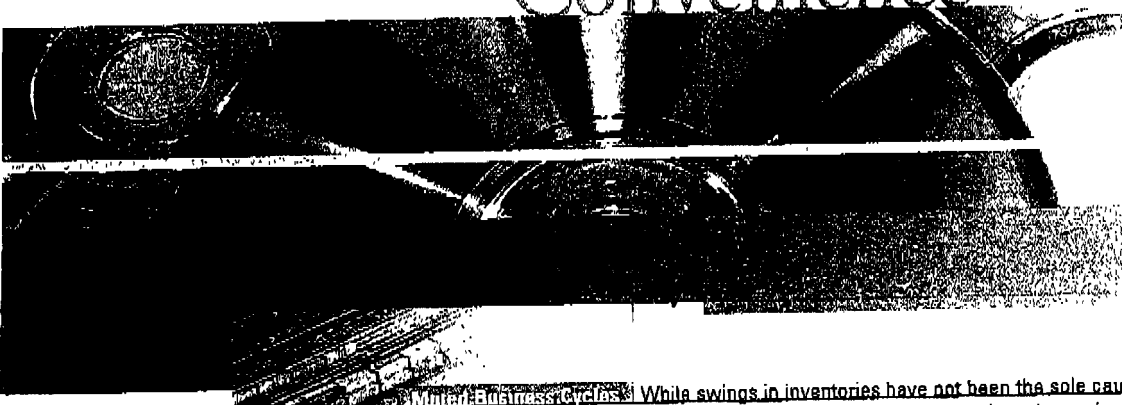
Information Processing
As a percentage of total real equipment investment



*As of October 1, 1999. Investment themes and the stocks on the *Highlighted Stocks* list are subject to change. The Fund's portfolio changes as names on the list change.

Mutual Fund

Convenience



Winter Business Outlook While swings in inventories have not been the sole cause of recessions, in the postwar years all recessions have been accompanied by inventory corrections. Lower inventory levels and the resulting dampening of inventory volatility are helping to moderate sharp fluctuations in U.S. economic growth.

PaineWebber Strategy Fund offers individual investors the opportunity to participate in a thematic approach to investing with the convenience of a mutual fund.

Convenience: An investment in the Fund provides a convenient way to maintain a portfolio of the stocks featured on the *Highlighted Stocks* list. Investors do not have to buy and sell individual securities to keep up with changes on the list or to rebalance their portfolios to reflect changes in the value of those securities.

Professional Management: The Fund is managed by Mitchell Hutchins Asset Management, the Fund's investment advisor. Portfolio Manager T. Kirkham Barneby, supported by the Quantitative Investments Team, makes all trading, cash flow and rebalancing decisions in the day-to-day management of the Fund.

August 1997: Asian economic crisis

September 1997

Converging Technologies The relentless advance of semiconductor technology, converging with the proliferation of an installed personal computer base in the office and the home, and the shift to inter-networking, has laid the groundwork for the move to an Information Age in which creation, distribution and manipulation of information is the central wealth-building activity. The implications of this theme still remain powerful for today's investor, as evidenced by its evolution into "Information Revolution Wars," a theme identified in May 1999.

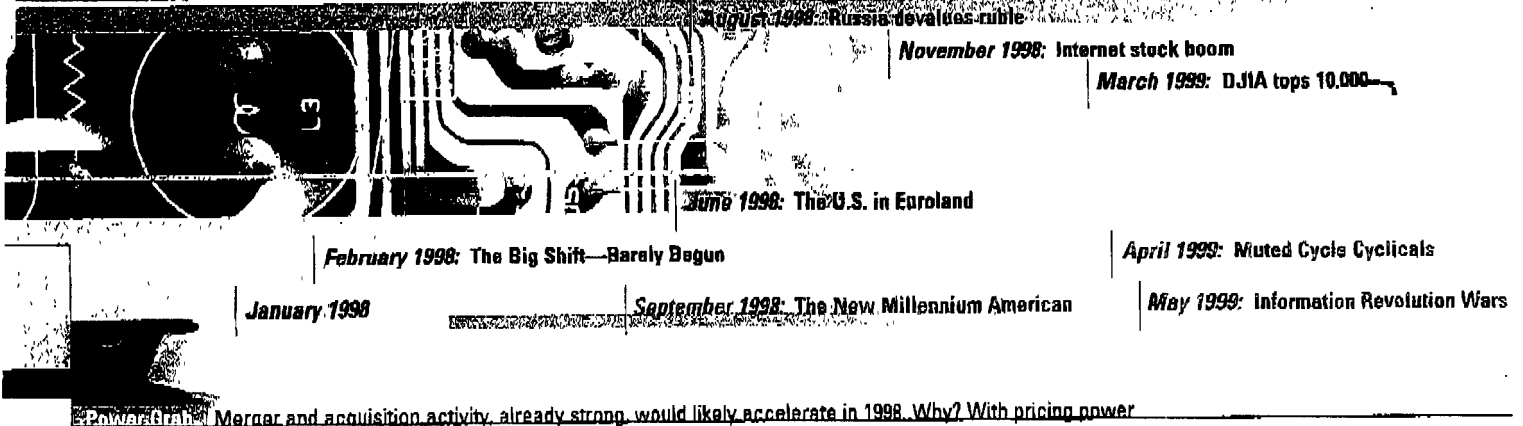
Concentrated Portfolio: PaineWebber Strategy Fund invests in stocks on the PaineWebber *Highlighted Stocks* list (usually 25 stocks believed by PaineWebber to be most likely to benefit from identified investment themes).

Lower transaction fees: By owning the stocks on the *Highlighted Stocks* list in a mutual fund, investors do not incur the significant transaction costs of buying and selling smaller lots of securities as the names on the list change.

Low investment minimums: The initial investment minimum for the Fund is \$1,000 with subsequent investments of \$100. These minimums provide investors the ability to invest in a portfolio of selected stocks at significantly lower investment levels than if they were to purchase comparable securities individually.

Investment Company has dedicated a significant level of resources and commitment to risk management, which is conducted by a separate risk management and performance analysis team. Using many of the same analytical tools employed by PaineWebber and other leading firms to manage their own capital risk, the Risk Management Team performs regular analysis of fund portfolios and individual securities in an effort to ensure that each Fund's investment risk remains within its defined parameters.

Risk Management



PowerRank: Merger and acquisition activity, already strong, would likely accelerate in 1998. Why? With pricing power minimal, firms had both the need to do deals to generate revenue growth, and the ability to do deals. After six years of uninterrupted profit expansion, cash flow and balance sheets were strong, and dividend hikes were modest.

The Risk Management Team monitors each Fund's performance daily versus its respective investment universe and its historical volatility of return. Portfolios are constructed and compared to actual monthly Fund performance to identify returns attributable to active management resulting from factors such as security selection and sector and industry concentration.

Mitchell Hutchins' three Chief Investment Officers and the Director of Risk Management regularly monitor each Fund's performance versus its objective and its respective peer group. The goal of this intensive system of checks and balances is to thoroughly oversee the investment management process.

Of course, these steps cannot guarantee safety of principal or total return, but we think they help provide a consistent investment process across all categories of funds.